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TURKEY'S 2000/1 BANKING CRISIS: A CASE STUDY FOR THE TRANSFORMATION OF THE GREEK FINANCE?

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ABSTRACT On April 2010, recently after the eruption of the Greek crisis, an unexpected hand from Turkey reached to Greece. Proud with his country's last-decade growth figures, Turkey's then Vice Prime Minister, Ali Babacan, paid a visit to Greece in order to share his country's reform period after its 2000/1 crisis, arguing that it could also be a case study for Greece. In this brief, I analyzed Greek and Turkish financial crises. Although it is a mere fact that the structural problems in Greek economy complicate the reform period in Greece, there are certain lessons that Greeks can learn from the Turkish experience. As Turks did after 2001, they should see the crisis as an opportunity to overcome the long time problems. In this regard, Greeks - first and foremost - should establish consensus among themselves, signaling to the markets that they are ready to face the burdens of the reform period.

Introduction

As the previous experiences would suggest and the logics of economics would confirm; current account deficits – sooner or later – lead to financial crises. A sudden confidence loss among the investors, which might be triggered by various factors, results with the credit crunches for the national economies that have already been addicted to operate under the persistent financial inflows. Greece and Turkey, during the last decade, were no exceptions in these regards:

First Turkey has been hit by a financial turmoil in November 2000. With the

collapse of a medium sized private bank and the confidence loss among investors as a result, average interest rates increased by four times in the period of one month. Just three months later, on February 19, 2001, the financial crisis reached a critical point with the confrontation of the President, Ahmet Necdet Sezer and the Prime Minister, Bülent Ecevit, leading to a political crisis that further deepened the financial turmoil. The consequences of the crisis were severe for the Turkish economy: The GDP declined by 9.5% in 2001. The unemployment rate increased by 4% during the same year.

Despite its challenges, the post-crisis period in Turkey has been a great incentive to overcome its long dated structural, operational and financial problems. In fact, the growth rate of the Turkish economy between 2002 and 2007 was at an average rate of 6.8% annually. Although the growth slowed down in 2008 and 2009 due to the effects of the global financial crises, the 2010 annual growth rate was 8.9%, one of the fastest among the OECD countries.

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Less than a decade later - while Turkey was enjoying a boom in its economy - a similar crisis story, this time, happened in Greece in early 2010. The massive revision of the 2009 Greek budget deficit from “6-8%” to 15.4% of GDP, in the midst of the global financial turmoil, revealed the vulnerabilities of the Greek economy, decreasing the credibility of its government bonds. The interest rates for the two-year Greek government bonds were four times higher in the beginning of 2011, in compared to one year ago. Its economy shrank by 4.5 percent in 2010, and is expected to shrink by further 3 percent within 2011. Since May 2010, after the introduction of the austerity measures, there have been widespread protests all around Greece, damaging the social consensus for a reform period that would be similar to Turkey's after its 2000/1 crisis.

In this brief, I will compare Turkey's 2000/1 Banking Crisis with the current Greek crisis, referring its post-crisis reform experiences as a case study for Greece. In the first section, I will deal with Greece, where I will first explain the populist surrender of the Greek economy by the Greek Statism after its transition to

democracy in 1974, which led to the current economic crisis in the country. I will also reveal the reasons for the sudden

confidence loss among the investors in 2009, causing a huge credit crunch by early 2010. In the second section, I will deal with Turkey. After discussing the liberalization path in the Turkish economy in the 1980's, I will talk about the structural problems

that started appear in the 1990's. I will explain how these structural problems finally shattered in Turkey with the collapse of a mid-sized private bank, Demirbank, which led to huge losses in confidence among investors. The third section will be about the reform period in Turkey, where I will question the applicability of similar reforms in Greece. In the fourth section, I will conclude by arguing that Turkey's banking sector reforms, which contributed to the country's economic growth following the crisis, is also applicable for the restructuring of the Greek finance – even though the Greek recovery will not be as quick as Turkey's due its low competitiveness figures, de-industrialized economic structure and its commitment to the Eurozone.

Greek economy after civilian democracy and the European Community (EC) membership

It sounds quite odd when one says that the start of the Greece's economic downturn coincides to the period after 1974: the year of its transition from military dictatorship to a civilian democracy. This, in fact, implies that

democracies are not always capable of promising stability and prosperity, and they also need to contain a taste of populism for the sake of their legitimacy. Though the real slowdown for the Greek economic performance seems more pronounced in the beginning of the 1980's, with the country's admission to the European Community and the Socialist PASOK's control of the government, we already see a trend for economic populism, state interference and protectionism starting with the mid 1970's – the period of economic stagnation in the Western world as a result of the First Oil Crisis in 1973.

Greek government's main response to the crises of the 1970's was to decrease investment and, on contrary, increase the private and public consumption, which was especially the case in the 1980's. The public consumption as part of GDP doubles in the 1973-1985 period. This, not only initiated Greece's chronic budget deficit problem, but also created a period of high inflation. The average inflation rate in the country between 1974 and 1993 averaged about 18.41 percent, an indicator of increasing consumption from 60.6 percent of GDP in 1973 to 76.78 percent in 1992. (Costas, George, 2011, p. 7)

One way to examine the Greek budget deficit would be through its saving-investment ratios: During the 1980's, with the influx of European capital to Greece through its EC membership, we see a secular decline in national saving, which can be traced to a deterioration in the public sector fiscal position, as the budget balance changed from 0.5 percent of GDP

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in 1960-73 period to an average of -13.6 percent in 1985-95 period. (Bosworth, Kollintzas, 2011, p.12) On the investment side; a substantial portion of the long-run variation is accounted for by residential investment, and hence the change in business investment is less than might be anticipated even though there is such a large change in the saving rate.

Fisher, according to his 1993 paper, argues that the swing in Greece's annual fiscal balance by 10 percent of GDP might have reduced the country's rate of economic growth by about two percent per year in the 1980's. In fact, the late 1970's and 1980's saw the emergence of strong cost pressures together with the strengthening of the labor's bargaining situation, controls on many prices and raised real wages well excess of productivity. The data suggest that the return on equity in Greek manufacturing fell from an average of 6 percent in 1976-80 to -6.8 percent in 1982-86. (Eurostat, 2011) Additio-nally, the Greek economy was relatively a closed economy in 1981 when the country was

admitted to the EC and opened its borders to the European free trade. This sudden liberalization in the Greek economy further worsened the competitive position of the Greek industries and contributed to a squeeze on profits of domestic firms, which led to the de-industrialization of the country. In this regards, the Greek exports declined from a peak of 17 percent of GDP in 1981 to less than 10 percent in 1997. (Bosworth, Kalintzas, 2011, p. 18)

The de-industrialization of the country during this period created an increasing dependence on imports, which gave way to the current account deficits. The

dependence on imports has been especially the case for the manufacturing sector. The 2008 figures indicate that the manufacturing current account deficit was about 65 billion Euros, in compared to a surplus of 15 billion Euros in services – mostly due to the successes of the Greek maritime and tourism industries. However, the reason for the long time current account deficits was not only due to the deterioration of the trade balance in goods and services – although the latter deteriorates significantly in the 1980's and the 1990's, but also due to the deterioration of the balance of income as a result of the increasing interest payments. Increasing amount of transfer payments coming from the EU - under the Integrated Mediterranean Program - was the only main reason that prevented the complete fall down of the current account during this period.

Under the principles of economics, a country that is persistently facing current account deficits would de-value its currency to increase its competitiveness, hence increase its exports, decrease its imports and turn the current account deficit into a surplus. This, however, has not been the case for Greece as the country adopted Euro as its national currency in 2001 – as part of its continuous effort for the Europeanization of the Greek nation - making the Greek products even more expensive, its industries even less competitive and further decreasing its export levels.

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The Greek crisis

Although Greece had managed to improve the “private standards of living” of its citizens during the last three-decades; when the economic crisis hit the country in 2009, all the long-time deficiencies of its economy was unmasked, which concerned the organization of its society, its economics institutions, or the provision of its public goods. In contrary to the fundamental characteristics of the global economic crises that started to erupt in 2008, where the solvency risk has been transferred from the private sector to the public sector; in Greece, it was the government debt that has put pressure on the banking system. With the liquidity pool provided by the European interbank market as well as the European capital markets, the role of the Greek commercial banks evolved as being the intermediaries that financed the excessive current account deficit of the past years, as well as a significant part of the public debt.

Nevertheless, the emergence of the global financial crisis in September 2008 started to create liquidity problems among the European lenders. During 2009, the liquidity provided by the European Central Bank (ECB) was largely handed over to the Greek government, which the government responded by issuing 10 billion Euros worth of government bonds. Though the Greek banking system was able to pass the year 2009 in a relatively healthy state, 2010 brought increased challenges. In the midst of the global financial crisis, the

massive revision of the 2009 budget deficit by the Socialist government from “6-8%” to 15.4% and the increasing debt levels (127% of GDP as of 2009) greatly decreased the creditworthiness of the Greek government bonds. These concerns were further exacerbated by the demonstrable lack of political will to deal with the twin issue of deteriorating public finances and the reduced competitiveness of the economy by the successive Greek governments, which further complicated the borrowing terms for the commercial banks. Therefore, the interest rates for the two-year Greek government bonds reached to the levels of 26.65% in May 2011 in contrast to the 4.53% in May 2007. (Bloomberg, 2011)

The commercial banks, as the “financial intermediaries” are particular organizations that redistribute capital from those that have them to those that have wills for entrepreneurial and productive means. In Greece, during the last three decades, this could happen only through a very thin capital base as most of the funds were transferred for the finance of the budget deficits of the Greek state. This, in fact, reveals that, in addition to the quantitative amount of the Greek debt, there is also a qualitative problem of supervision as the debt is predominantly in the hands of the Greek government, rather than the small and medium sized private businesses that could have more innovative approaches to pay back the debts. Moreover, the absence of an entrepreneurial private sector suggests that the Greek government would only be able to collect fewer taxes, which would further complicate the burden of the debt re-payment. With the decreasing availability of capital, the already small industrial production of the country went down by 8% between March 2010-March 2011 period. The unemployment

increased from 10.3% in 2009 to 16.2% in 2011, which greatly damaged the social consensus in the country that was built on social values, welfare state, protectionism and hence the Europeanization of the nation. (Eurostat, 2011)

On May 1, 2011, after the Greek government could finally persuade Germany that Greece would go under austerity measures and reform its institutional framework, IMF-EU-ECB consortium decided to issue a 110 billion Euros worth of emergency loan. However, the ongoing massive protests in Athens against the austerity measures increase the concerns regarding the possibility of a reform movement in the country.

The liberalization of the Turkish finance in the 1980's

While the Greek economy entered the 1980's with the ideas of democracy, European Community, socialism, welfare state, protectionism and labor rights, Turks, on the other side of the Aegean Sea, were following complete opposite directions in many ways: First, Turkey was facing a coup d'état in 1980 as opposed to Greece's move towards democracy and the EC in 1981, and, second, while Greece was embracing the socialist and welfare state values, Turkey was announcing its economic program for liberalization under Prime Minister Turgut Özal, moving away from the Statism (Devletçilik) principle of Kemalism.

Turkey can be characterized as a planned economy prior to 1980. State agencies - such as the State Planning Organization - have played a major role in the country's economic decisions after the foundation of the Republic in 1923. The turning point for the Turkish economy was the period

following the 1980 coup d'état, as the anti-Communist generals believed that a capitalist spirit could only be kept alive with the development of an entrepreneur middle-class in the country. The Economic Stabilization and Structural Adjustment program announced in 1980 by the former Prime Minister Turgut Özal, largely known as the *January 24th Decisions*, adopted policies that gave priority to economic growth based on export promotion.

The structural reforms, such as eliminating the control in interest rates, to encourage foreign investment in the country, aimed at increasing both deregulation and liberalization of financial markets. As a result, the macroeconomic situation in Turkey changed dramatically with the implementation of this program. It eliminated quantitative and price controls and put emphasis on a free market approach. The financial sector reforms targeted increasing deposits with the market-oriented interest rates, as well as improving distributional and operational efficiency of the financial system with the diversification of the financial system, which was mainly denominated by banks.

Turkey's lost decade in the 1990's

Despite the liberalization movement in the economy in the 1980's, and high growth rates together with that; the 1990s are still considered to be a lost decade for Turkey. The end of the Cold War revealed two emerging political problems for the Republic: Political Islam and Kurdish

Nationalism. The rise of political Islam instilled fear among the public of another coup d'état by the Turkish military, which was regarded as the vanguard of the secular Kemalist ideology. The increasingly violent expressions of Kurdish nationalism increased the chances of a civil war in the

country, dividing the society between ethnic lines.

This political instability in the country pressured the Government to make short-sighted economic policies in the 1990s that only served to further exacerbate the series of severe crises in 1990, 1994, and

1999. (Kibritçioğlu, 2005, p. 143) The political crisis in 1990, triggered by the Gulf War in the territory of Turkey's neighbor-state Iraq, was followed by a financial crisis in 1994 brought about by a huge current account deficit. The country was then hit by another financial crisis in 1999 due to the triggering effects of the 1997-1998 Asian Crisis and the 1998 Russian Crisis.

The short-lived and weak governments' main policy action, in the hopes of cooling down the instability in Turkey, was to increase fiscal spending: an action that Greece has also adopted since the 1980's. While military expenditures were increasing (to the level of 5% of the country's GDP) due to the Turkish military's war against the Kurdish rebellions in South-Eastern Turkey, successive governments also kept subsidizing farmers and the inefficient state enterprises. The dynamics of the domestic debt, therefore, reached an unsustainable level in the 1990s as the domestic debt to GDP ratio increased from

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6% in 1990 to 42% in 1999. (Özatay and Sak, 2002, p. 12) The increasing indebtedness of the Turkish state in this period was financed by two unsustainable approaches:

1) The most common approach was to borrow from Turkey's private banks. The private banks were borrowing from European banks and local lenders (e.g. REPOs) on a short term basis and later lending to the Turkish government.

2) The other source of finance was through the state banks. As they were allowed to make “duty losses”, the governments could borrow from the state banks without any previously determined limit and regulation. Therefore, through the funds of the state banks, the government was subsidizing the inefficient state enterprises, or even buying the excess crops of the Turkish farmers, which caused the state banks to undergo big financial losses each year. (Uludağ, 2008, p. 64)

The evolution of the Turkish state and private banks - as the financiers of the government budget deficits - and not the private businesses - show similarities to the Greek case. In both 2001 Turkish Banking Crises and 2010 Greek Crisis, the fundamental structural problem can be seen as the decreasing availability of the credit for the private sector, which caused decreases in their respective investments and the eruption of the persistent current account deficits. Such deficits – sooner or later – would lead to the crises, i.e. the Nordic banking crises in the 1990s, the Mexican “Peso” crisis in 1994, or the collapse of the East Asian “tigers” in 1997.

Though there were fundamental similarities in Turkish and Greek finance prior to their respective crises, the eruption of the Turkish crisis has been

much faster – as the availability of financial instruments were not as generous as in case of the EU member Greece, and hence the investor confidence was much fragile to be lost. Below I will focus on the story of the Turkish crisis in a more detailed way.

Turkey's 2000-1 Banking Crisis: Facing the fundamentals

In early 2000, the accumulating fiscal problems in Turkey meant that radical economic reforms were urgently needed. Prime Minister Bülent Ecevit's government prepared a comprehensive Disinflation Program, backed up by the IMF and the World Bank. The main pillars of the program were;

- 1)** a tight fiscal policy focusing on improving the primary surplus;
- 2)** a speed-up of the structural reforms and privatization efforts;
- 3)** an income policy geared to targeted inflation and;
- 4)** a pre-announced exchange rate basket.

However, there were disputes and frictions among the coalition parties about the timing and the modeling of structural reforms and privatization plans. The disagreements delayed the reforms, which affected the confidence in the government both in Turkey and abroad. While the government was not able to implement the structural reforms, the combined effects of a number of internal and external factors such as the sharp rise in oil prices, the deterioration of the Euro against the Dollar, and limited international capital inflows were creating a huge current account deficit in Turkey. The boost in demand for both domestic and imported goods was a major internal

factor that contributed to the rising current account deficit. As interest rates on government papers fell sharply after the implementation of the Disinflation Program, the banks started to channel the excess sources to private firms. The rising demand and inertia caused inflation to remain higher than projected. These developments resulted in the appreciation of the Turkish Lira and the depreciation of Turkish competitiveness in export sectors. The current account deficit reached the dangerous level of 4.2% of GNP. (Belgenet.com, 2011)

The catalyst for this worst-case scenario was in October 2000 when Demirbank, a medium sized bank with 80% of its portfolio constituted from government papers, could not borrow in the overnight market. This forced the bank to sell part of its government securities portfolio. Demirbank's action triggered the interest rates to shoot up overnight to 2000 percent, prompting international investors to exit the market. (Derviş, 2001a, p. 8) This caused a credit crunch in Turkey, which was aggravated further by the fact that the Central Bank was prevented from injecting liquidity into the financial system by its commitment to defend the currency peg – being one of the pillars of the Disinflation Program.

The Ravages of this crisis on the banking system, especially on the state-owned banks, increased the vulnerability of the entire banking system. As a result of Demirbank's response and consequent events in October and November 2000, the foreign investors had lost their confidence in Turkey. The final straw that brought about the collapse was the confrontation between Prime Minister Bülent Ecevit and President Ahmet Necdet Sezer at the National Security Council meeting on February 19, 2001. (Özutku, 2003, p. 9) The two statesmen could not

agree on a common rescue package. Prime Minister Bülent Ecevit, during his press conference after the meeting, made it public that the President used inappropriate words against him, which he said to be “against the state tradition of Turkey.” The rumors suggested that the President threw the Constitution Book at Prime Minister Ecevit's face. As a result of this political crisis, the market confidence was completely lost. The Turkish Lira once more faced a currency attack on the same day. The banking sector had to purchase \$7.6 billion from the Central Bank to be settled the next day. (Derviş, 2001b, p. 4)

As the reserves of the Turkey's Central Bank were eroding, the concerns that were raised about the sustainability of the currency peg system had further deepened the lack of confidence. On February 21, 2001, overnight repo rates hit 3000% levels. Istanbul's Stock Exchange index recorded its biggest fall of 18.11%. The government had no choice but to float the Turkish currency on February 22, 2001. After this decision, the Turkish Lira depreciated by 44%. (Özutku, 2003, p. 10)

Lessons from the Turkish reform period: Is it applicable for Greece?

Despite all these developments, during his press conference on April 15, 2001, Kemal Derviş, the newly appointed Economy Minister, described Turkey as the right country to invest, saying that the foreign investors in Turkey would definitely make huge profits in the near future. Turkey's 2000-2001 banking crisis has been a great incentive for the country to reform its long time structural, financial and operational problems. Mr. Derviş introduced a new economic program on May 15, 2001, top priority of which was given to banking

reform, followed by privatization. In this part of the paper, I will analyze the reform period in Turkey during the post-crisis period and will question their implications in the case of Greece:

▪ ***Depreciation of the currency***

As part of the Disinflation Program introduced in early 2000 and backed by IMF and the World Bank, Turkey has adopted a crawling peg, which the policy makers aimed at sustaining the stability through the exchange rate. However, the rise in current account deficit – due to the reasons that was previously mentioned – was challenging the sustainability of the peg. Since November 2000, Turkish Lira faced multiple currency attacks, which the Central Bank could only protect the peg after injecting a 7.6 billion dollar IMF loan to the economy. However, when the Turkish Lira was attacked by another currency attack after the political crisis between the Prime Minister and the President, the reserves of the Central Bank has already eroded. The government had no choice other than floating the currency on February 22, 2001. The Turkish Lira depreciated by 44% after this decision – an action that greatly increased the Turkish competitiveness.

Had Greece not acceded to the euro-zone, high external imbalances would sooner or later have triggered a similar devaluation of its currency. However, far from depreciating, Greece's real effective exchange rate appreciated by 17% over the period 2002-2007, contributing to a further exacerbation of its current account. (Athanassiou, 2009, p. 366) With Greece having the currency the Euro – and

as the Euro is not expected to fall down anytime soon – the required real depreciation can only come through price deflation through lower production costs. In this regard, there should be productivity increases and wage decreases. Labor markets reforms, service sector reforms and pension reforms should be implemented in order to support the price deflation.

▪ ***The re-structuring of the state-owned banks***

In Turkey, the financial structures of the state-owned banks had played an important role in exacerbating the financial crisis in 2000 and 2001. Their situation worsened during the crisis and posed a threat to the healthy functioning of the banking system because their high cash deficits made these banks more vulnerable to liquidity and interest rate shocks. Receivables arising from the duty losses represented the most important reason for the deterioration of the state-owned banks. It was stated in the Transition to a Strong Economy program that the state banks would no longer be forced to run duty losses; any support provided via the state banks was to be budgeted and not allowed to lead to a loss. The new policy also allowed the state-banks to borrow from the Central Bank, instead of from the private investors with high interest rates, which allowed them to meet the regulatory capital adequacy ratios. On the operational side, the management of the two largest state banks, Ziraat Bank (Agricultural Bank) and Halk Bank (Commune Bank), were strengthened through the establishment of a common

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and politically independent governing board. (Uludağ, 2008, p. 67) The management began to apply commercial criteria to operations and pricing policies that ensured profitability.

Similar to what happened in Turkey, Greek state banks should also apply the commercial criteria, instead of financing the current account deficits of the Greek state. Their boards should be composed of professionals, who would not make sacrifices under the political pressures. Additionally, they should work closely with their clients to avoid widespread loan defaults. In the long run, the public sector should also consider exiting the banking system.

▪ ***The banking regulation and supervision agency***

Before the eruption of the crisis in Turkey, in August 2001, the Turkish authorities formed up the Banking Regulation and Supervision Agency (BRSA) as an independent body to regulate and supervise the banking sector in the country. This agency was also chosen to be the main body for the implementation of the banking reforms. After Kemal Derviş became the Minister of State, the Turkish government guaranteed the independence of this body as its seven members were not to be influenced by politicians.

In Greece, after the government announced that the country would adopt tight fiscal and austerity measures, there has been a widespread protest in the country, which has limited the reform initiatives of the politicians. An independent body, similar to the BRSA that would not make political compromises during the reform period, could be implemented to pursue the

reforms in the country. In this regard, any assistance coming from the European Union, International Monetary Fund and the World Bank should be considered.

▪ ***Ensuring that private banks have a healthier structure***

Turkey's Saving and Deposit and Insurance Fund (SDIF), following the crisis, handed over some of the private banks, which has transferred its resources to affiliated companies beyond legal limits. Such banks' debts had outstripped their capital equalities. The private banks, which were not taken over by SDIF, had also faced significant losses in the aftermath of the crisis. This led to a general loss of confidence in the financial sector. SDIF's primary goal, in order to regain the market confidence, was to encourage the private banks to increase their capital adequacy ratios. BRSA believed that capital assistance should have been available for a limited period to all (commercial and savings) banks that met the established financial and operational criteria set by the agency. The banks that were both willing and able to meet the terms of financial support would be able to receive capital assistance from BRSA. This way, they could attain a specified minimum CAR and an adequate operational structure. By the end of 2001, the capital assistance provided by the BRSA to the private banks amounted to about 1.4 quadrillion Turkish Lira (\$1.1 billion). (BDDK, 2008, p. 32) Banks were also asked to reduce their non-financial participation to further strengthen their structures.

Under the rescue package, the banks were to use 60% of government funding to save financially ailing corporations. (BDDK, 2008, p. 45) Companies that took out large, short and medium term foreign currency loans from the banks to make

investments in 2000 and 2001 had seen their debts multiply after the February devaluation. Furthermore, under the package, dubbed the "Istanbul approach", the banks would restructure the debts of many of the country's largest industrial corporations that were in arrears on their loan payments, over the next three years (starting from 2002). The program was designed to get the real economy rolling again after what came to be the nation's worst recession since World War II.

Similarly, the crisis in Greece has put the Greek private banks under strain. With the decreasing availability of funding, the private banks are facing liquidity problems. Some funds were made available through the European Central Bank, yet they would not be enough for long-term adequate capital ratios. The implementation of the Financial Stability Fund - a capital support mechanism for the banks that are not able to raise capital in the private markets - is an important initiative in order to prevent any possible credit crunch in the real sector that would be more than necessary for the Greek private sector to re-born. The banks in Greece should also increase their capital cushions, ensuring that they have adequate capital buffers, which would be a significant initiative to regain the investor confidence.

▪ ***The globalization of the finance***

The post-crisis period saw a huge increase in the number of international banks in Turkey. HSBC, BNP Paribas, Unicredit, ING Bank, Societe General, JP Morgan Chase and Deutsche Bank were amongst the

most well-known. Such international banks, which used to lend to intermediary banks in Turkey on a short-term basis, now opened their own branches in Turkey, either by buying one of the bankrupt SDIF banks (HSBC acquired Demirbank) or by becoming partners with a local bank (Citibank's 20% stake in Akbank). Today there are no more intermediary banks between the real Turkish economy and the international banks. International banks are now directly responsible for their lending decisions in Turkey. This reduces the risk factor while allocating credit to Turkey's real economy. Turkish

businesses are now able to borrow long-term credits with lower interest rates.

In this regard, the globalization of finance in Greece might be an important initiative for financial stability as the banks could seek further capital and improve

markets' perceptions of their valuations. As the banking sector consolidation is necessary, "the entry of additional first-tier international banks as strong partners would bolster the Greek banking system – both for liquidity and capital." (Traa, 2011, p. 3)

▪ ***Structural reforms of the 1980s***

Paul Krugman, following the Asian crisis in 1997 and 1998, had argued that the investors could make huge returns in the near future, if they chose to invest in the Asian economies. Throughout the region, assets were valued (in dollars) at anywhere from 25 percent down to 10 percent of what they were worth before the crisis. (Krugman, 1998, p. 6) Asian assets were much cheaper than it was

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supposed to be in 1998. Less than four years later, Kemal Derviş made the same argument for the Turkish economy. As Asian economies were not “paper tigers”, in Krugman’s words, Turkey’s private sector development, starting from the early 1980s, was also not a deception. Therefore, there was huge potential for growth, following the crisis period, once the deficiencies of Turkey’s banking system had been solved.

It is a doubt whether there is such a potential for growth in the case of Greece, following its crisis period. What is missing in the Greek case is that a period of industrialization, or a base for production – no matter whether there is a boom or bust cycle in the economy, would be there for the recovery of the economy in the post-crisis period. With its commitment to the Euro-zone, low competitiveness figures, state-controlled industries, and the absence of social consensus, it is not clear whether Greece can adopt an export-led growth in its post-crisis period that would be similar to Turkey or South Korea. Even if the country could establish a consensus in this regard, its competitive position would be much lower in compared to the newly admitted European Union (EU) members of the Eastern Europe. Greece should urgently start implementing its privatization plan in order to boost the rise of an entrepreneurial spirit in the country.

Conclusion

On April 2010, recently after the eruption of the Greek crisis, an unexpected hand from Turkey reached to Greece. Proud with his country’s last-decade growth figures, Turkey’s then Vice Prime Minister, Ali Babacan, paid a visit to Greece in order to share his country’s reform period after

its 2000/1 crisis, arguing that it could also be a case study for Greece.

In this brief, I analyzed the applicability of the Turkish post-crisis period for Greece. I conclude with the following:

- 1) Persistent current account deficits in Turkey and Greece resulted with financial crises in different periods of time.
- 2) The banking reforms in Turkey, following the 2000/1 crisis, which aimed at transparency, supervision, regulation and the market rules enabled the flow of the funds to the small and medium sized entrepreneurs who are considered as the engines of growth. Within the same perspective, the Greek finance should also be taken out from the populist rule of the Greek Statism and should operate the under the market principles. Independent bodies should enforce supervision and regulation.
- 3) The de-industrialization of Greece since the 1980’s, its low competitiveness, its inability to devalue the currency all complicates the pace of the Greek recovery through an export-led or investment-led growth following the crisis.
- 4) In this regard, similar to Turkey’s January the 24th Decision adopted in 1980, Greece should pass through a certain period of time that will change the economic mentality in the country from the dominance of the State to the principles of market operations.
- 5) I argue that one important lesson that Greece can learn from Turkey’s last decade experience is the impacts of the social consensus. One might attribute the failure of Turkey’s 2000 Disinflation Program to the absence of such a consensus at the time. The

success of 2002 Transition to a Strong Economy can also be attributed to the establishment of consensus in this regard. A strong consensus would also convince the international credit sources for better terms of lending.

Though it is not within the scope of this brief, I also find it a duty to say a word on recent debate regarding Turkey's overheating economy, increasing current account deficits, sustainability of its post-crisis high growth figures and their prospects for a new crisis: As this brief argued, the currency depreciations serve as a "thermostat" for the overheating economies that face large amounts of current account deficits. High interest rates since 2003, which made the capital inflows available to Turkey, have kept the Turkish Lira overvalued for a long time. Despite the high growth figures, this has led to an economy that was dependent on imports and domestic demand for sustainable growth. In parallel to the recent depreciation in Turkish Lira, the unsustainable increase in current account deficits can only be overcome by new exchange rate equilibrium. The adjustment should extend into a period of time, as a sudden adjustment would mean crisis. While decreasing the growth figures, an overtime depreciation of the currency would lead to an increase in exports, a decrease in imports and hence an adjustment in the current account. The policymakers should beware of the statements that would break the investor confidence. Any signal of mistrust to the economy – especially the ones coming from the policymakers – could lead to sudden outflows. I will further discuss the prospects of sustainable growth in Turkey in another Policy Brief.

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